

EXHIBIT 122

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

- - - - -x

UNITED STATES OF AMERICA
FINANCIAL CRISIS INQUIRY COMMISSION

Official Transcript

Interview of Mary Haggerty
August 17, 2010

APPEARING ON BEHALF OF THE FCIC:

VICTOR CUNICELLI

THOMAS KREBS

THOMAS BORGERS (TELEPHONICALLY)

MINA SIMHAI (TELEPHONICALLY)

- - - - -x

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400



Page 2

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. CUNICELLI: This is Victor
3 Cunicelli of the Financial Crisis Inquiry
4 Commission. Today's date is August 17,
5 2010. The time is approximately 11 a.m.

6 I'm accompanied by Tom Krebs of the
7 FCIC and Tom Borgers telephonically, and
8 Mary Haggerty of J.P.Morgan and several
9 Paul Weiss attorneys.

10 We are at the offices of Paul Weiss,
11 New York, for the interview of Ms.
12 Haggerty. This interview will be
13 recorded with the consent of Ms.
14 Haggerty.

15 Could I please get your verbal
16 assent for the record?

17 MS. HAGGERTY: Yes, I agree.

18 MR. CUNICELLI: Okay, great.

19 Will everyone please state your full
20 name and affiliation for the record? And
21 please spell your last name for the
22 transcriptionist. I'll start.

23 Cunicelli is C-U-N-I-C-E-L-L-I.

24 MR. KREBS: Tom Krebs, K-R-E-B-S,
25 FCIC.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 3

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: Mary Haggerty,
3 H-A-G-G-E-R-T-Y, J.P.Morgan Securities,
4 Inc.

5 MS. CAREY: Jessica Carey,
6 C-A-R-E-Y, Paul Weiss.

7 MS. JENS: Linda Jens, J-E-N-S,
8 JPMorgan Chase.

9 MR. GOLDSTEIN: Eric Goldstein,
10 G-O-L-D-S-T-E-I-N, Paul Weiss.

11 MR. PATERSON: Paul Paterson,
12 P-A-T-E-R-S-O-N, Paul Weiss.

13 MR. CUNICELLI: Okay.

14 In the way of background, Ms.
15 Haggerty, the FCIC was established by
16 statute, Public Law 111-21, and signed
17 into law by the President. It is
18 bipartisan and consists of ten
19 commissioners. It is charged with
20 examining the causes of the financial
21 crisis and collapse or near collapse of
22 major domestic financial institutions.

23 The commission is charged with
24 composing a report of findings to the
25 President and Congress by December 15,

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 4

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010
2 2010.

3 The commission may compel attendance
4 and testimony of witnesses and production
5 of records.

6 I can provide a copy of the statute
7 by which the commission was formed if you
8 so desire.

9 Be advised the FCIC is an agency of
10 the United States and FCIC staff are
11 federal employees under the aegis of 18
12 Unites States Code Section 1001
13 concerning false statements.

14 If -- at all times, if you mention a
15 proper name, a last name, if you could
16 spell it the first time you mention it.
17 If not, we'll try and -- try and remind
18 you throughout. And just make sure that
19 all your responses are verbal, audible --

20 MS. HAGGERTY: Okay.

21 MR. CUNICELLI: -- and you should be
22 good to go.

23 MS. HAGGERTY: Okay.

24 MR. KREBS: Mary, thank you for
25 coming in this morning. I really

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 appreciate it.

3 Could you give us a little of your
4 background, please?

5 MS. HAGGERTY: Sure. I graduated
6 from college in 1982. I went to State
7 University of New York at Albany and got
8 a Bachelor's degree in accounting. Went
9 to work for Arthur Young, which is one of
10 the Big Eight public accounting firms.
11 And in 1985, went to work at Bear
12 Stearns.

13 Initially, in their back office, I
14 did the operational side of their initial
15 mortgage conduit that they operated in
16 the '80s. Left the firm in beginning of
17 1989 to move to Cleveland, Ohio, and
18 worked for a small firm there for three
19 years. And in '92, came back to New York
20 and back to Bear Stearns, where I worked
21 in the mortgage-backed securities
22 department until the merger with
23 J.P.Morgan.

24 At the merger with J.P.Morgan, I
25 transferred to JPMSI, the structured

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 products group, also working in the
3 mortgage department. And then in March
4 of this year, transferred within
5 structured products to another division
6 that manages the firm's principal
7 investments in delinquent tax liens.

8 MR. KREBS: Who was your immediate
9 supervisor at Bear Stearns while you were
10 with the mortgage-backed securities
11 department?

12 MS. HAGGERTY: It changed from time
13 to time, but it was Tom Marano, who we
14 just spoke about, and Jeff Verschleiser.

15 MR. KREBS: What was your job there,
16 at the mortgage-backed securities
17 department? What were you doing for Tom?
18 Or --

19 MS. HAGGERTY: I did a number of
20 different things during my tenure there.
21 So when I first started again, the second
22 time in 1992, I was in the home loan
23 securitization group, which was
24 responsible for securitizing one-to-four
25 family residential mortgage loans. I

Page 7

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 continued in that position and became co-
3 head of that group in 1996.

4 And then in 2001, my job
5 responsibilities shifted when Tom Marano
6 asked me to start up and manage a
7 mortgage conduit.

8 MR. KREBS: What was that mortgage
9 conduit?

10 MS. HAGGERTY: It was an operation
11 by which a subsidiary of the Bear Stearns
12 Companies, called EMC Mortgage, would buy
13 whole loans -- one-to-four family
14 residential mortgage loans -- from
15 sellers of, and originators of, these
16 loans and securitize them into mortgages.
17 And to mortgage-backed securities, sorry.

18 MR. KREBS: And ultimately, were
19 those mortgages to be securitized?

20 MS. HAGGERTY: Yes.

21 MR. KREBS: How did you go about
22 acquiring mortgages for securitization
23 purposes?

24 MS. HAGGERTY: Well, there's a lot
25 of steps to that.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 The firm employed salespeople that
3 would maintain relationships with the
4 originators of the mortgages. So one
5 step is to find out who is creating them
6 and talk to them about selling them to
7 you.

8 The other thing that you would do to
9 go about doing that is just create the
10 parameters under which you would buy the
11 loans. And so the trading desk would
12 work on that, along with the mortgage
13 securitization group.

14 MR. KREBS: Did you buy these
15 securities in pools or did you buy them
16 individually?

17 MS. HAGGERTY: Earlier on, we bought
18 the loans in pools. And then the -- in
19 2001 is when we started -- actually, it
20 was in 2002 when we bought the first
21 ones. But we built the operation within
22 EMC to buy individual loans, one by one.

23 MR. KREBS: Ultimately, what did you
24 do with those loans that were acquired by
25 EMC, that had been acquired one by one?

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: They also were
3 securitized.

4 MR. KREBS: Who was in the charge of
5 the securitization and who did -- with
6 whom did you work at the securitization
7 desk?

8 MS. HAGGERTY: The co-head with me
9 of the securitization group was Baron
10 Silverstein, S-I-L-V-E-R-S-T-E-I-N.

11 MR. KREBS: Was it Baron?

12 MS. HAGGERTY: Yeah. Baron, like
13 Snoopy and the Red. B-A-R-O-N.

14 MR. KREBS: Which loan originators
15 did you utilize to acquire these loans?

16 MS. HAGGERTY: There were more than
17 a hundred of them. Between 1- and 200, I
18 think. And they ranged in size from
19 small originators to large ones like
20 Countrywide and Wells Fargo.

21 MR. KREBS: I imagine this was a
22 relatively smaller part of the mortgage
23 market when you're looking at one-to-
24 fours or -- is that what you said --
25 family.

Page 10

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: One-to-four family
3 products secured the loans, yeah.

4 MR. KREBS: I imagine it was a much
5 small -- was it a much smaller group than
6 was in the mortgage industry generally?

7 MS. HAGGERTY: Well, I think the
8 largest part of the industry would sell
9 to Fannie and Freddie. Yeah, so this was
10 what we would call non-agency.

11 MS. CAREY: Did somebody just join
12 on the line?

13 MS. SIMHAI: Yes. Yes, this is Mina
14 Simhai with the Financial Crisis Inquiry
15 Commission.

16 MR. KREBS: Can you describe for us
17 the methodology that you used to acquire
18 loans from those originators? Would you
19 take bids? How would you do it?

20 MS. HAGGERTY: Okay. There were two
21 basic business lines. And I would
22 describe one as flow and the other as
23 bulk.

24 So we'll start with bulk. Bulk is a
25 situation where the originator aggregates

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 a certain number of mortgage loans for
3 sale. And it could be anywhere from a
4 million dollars' worth of mortgage loans
5 to a billion dollars' worth of mortgage
6 loans. Again, depending on the size of
7 the originator and their capacity to
8 aggregate these and hold them for sale.

9 And so what an originator that was
10 selling bulk would typically do is have
11 relationships with several investors.
12 And they would send, typically, an Excel
13 spreadsheet that listed the loans that
14 they were offering and then certain
15 attributes about each of the loans,
16 things like the original balance, the
17 property type, the interest rate, what
18 kind of a loan was it, meaning was it
19 fixed-rate or adjustable. Those types of
20 things. And --

21 MR. KREBS: Is this what's called
22 the tape?

23 MS. HAGGERTY: Yes --

24 MR. KREBS: Okay.

25 MS. HAGGERTY: -- except they're not

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 tapes anymore; they're Excel
3 spreadsheets --

4 MR. KREBS: (Indiscernible).

5 MS. HAGGERTY: -- but yes, the tape.

6 And so they would send the tape out
7 and -- to several different investors.
8 And they would say we'd like bids on this
9 by a certain date. And the investors --
10 potential investors would bid and the
11 originator would make a selection and
12 award the bid.

13 MR. KREBS: In connection with the
14 bid --

15 MS. HAGGERTY: Um-hum.

16 MR. KREBS: -- was the -- was it
17 contemplated that a sample would be done
18 for due diligence purposes?

19 MS. HAGGERTY: Yes. And it was --
20 would either be a sample or every single
21 loan would be looked at.

22 MR. KREBS: Did the bid
23 oftentimes -- or ever specify the size of
24 the sample to be taken in connection with
25 the submission of a bid?

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: What we typically did
3 at Bear was a commitment letter that
4 would go out within, say, twenty-four
5 hours of a trade. And in that commitment
6 letter, we would typically specify due
7 diligence. And I -- it's hard for me to
8 remember exactly, but it would make sense
9 to me that at least in some
10 circumstances, at the time of the bid, we
11 would say what -- how much diligence we
12 were going to do, meaning the percentage
13 of the pools that would be looked at.

14 MR. KREBS: Did the material
15 submitted by the originator also contain
16 reps and warranties or were those
17 negotiated later?

18 MS. HAGGERTY: The reps and
19 warranties would be negotiated later,
20 typically, in the mortgage loan purchase
21 agreement. And then oftentimes, a master
22 mortgage loan purchase agreement could be
23 entered into between EMC and a seller.
24 And then if you have subsequent trades,
25 they would be settled via a term sheet.

Page 14

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 So you use those same reps and
3 warranties, same agreement, and then the
4 term sheet would just specify whatever
5 was different for that particular trade.

6 MR. KREBS: Was EMC also involved in
7 the origination business or was it merely
8 a conduit for Bear Stearns securitization
9 process?

10 MS. HAGGERTY: EMC was a purchaser
11 and seller of loans; EMC did not
12 originate itself.

13 MR. KREBS: Did EMC have,
14 internally, its own underwriting
15 guidelines?

16 MS. HAGGERTY: EMC did publish a set
17 of guidelines, yes.

18 MR. KREBS: And those guidelines
19 were available to anybody who wanted to
20 submit a bid to EMC so they knew
21 beforehand what your standards are?

22 MS. HAGGERTY: The guidelines were
23 available to anybody that wanted to have
24 them. People could submit bids or we
25 would bid on product if the -- the seller

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010
2 was approved by EMC.

3 MR. KREBS: Did those underwriting
4 guidelines change?

5 MS. HAGGERTY: Yes.

6 MR. KREBS: Did they change between
7 2005 and 2006? But I'm not going to let
8 you guess; I'm just going ahead to look
9 right here.

10 Here, this will help. We'll use
11 this as Exhibit Number 1.

12 MS. HAGGERTY: Thank you.

13 MR. KREBS: This appears to be a
14 subprime credit profile. And you'll
15 notice it's revised at the top on 1 --
16 5/1 of '05. And it says -- on the right-
17 hand side, it says "date of last change
18 to credit profile was 5/18 of '05". I
19 think --

20 MS. HAGGERTY: Um-hum.

21 MR. KREBS: -- is that -- I'm not
22 sure I'm reading that correctly --
23 revised 5/1/05 -- or 5/18/05. So that
24 indicates there was at least one that was
25 different than the one we're looking at

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010
2 now in existence before this date. Is
3 that correct?

4 MS. HAGGERTY: Well, this is a
5 document that looks like it was prepared
6 by Clayton. Is that right?

7 MR. KREBS: Um-hum.

8 MS. HAGGERTY: Okay, I've not seen
9 this document, to my recollection. So
10 let's take a look at it.

11 MR. KREBS: Well -- yes, go -- the
12 right hand. Look at it if you'd like.
13 But I'm going to ask you some questions
14 about it.

15 MS. HAGGERTY: Okay.

16 MR. KREBS: You'll see under the top
17 heading, says "client-specific rejects".

18 MS. HAGGERTY: Okay.

19 MR. KREBS: That means loans that
20 the client, meaning EMC Bear, would not
21 accept, is that correct?

22 MS. HAGGERTY: It appears to be the
23 case, yeah.

24 MR. KREBS: And it says "unless you
25 advise us to the contrary", we would

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 review -- "should we review loans to the
3 seller's guidelines". Now, what seller
4 are they talking about at that point?

5 That would be the loan originator --
6 origination firm?

7 MS. HAGGERTY: I would assume so. I
8 mean, I'm guessing a little bit just
9 because I haven't seen this document
10 before, but --

11 MR. KREBS: Okay.

12 MS. HAGGERTY: -- but that would
13 make sense to me. Seller would be
14 whoever's selling to Clayton's client,
15 who's EMC.

16 MR. KREBS: Are you familiar with
17 Clayton's ranking of loans?

18 MS. HAGGERTY: I'm familiar with a
19 result of 1, 2 or 3 --

20 MR. KREBS: Okay.

21 MS. HAGGERTY: -- for both credit
22 and compliance.

23 MR. KREBS: Are you familiar with a
24 term called 2W?

25 MS. HAGGERTY: No.

Page 18

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: Well, you will be before
3 the day is out.

4 MS. HAGGERTY: Okay.

5 UNIDENTIFIED FEMALE SPEAKER: Sounds
6 ominous.

7 MR. KREBS: Well, I mean it's no
8 secret. And it's been published widely.
9 It's just that they were 1, 2 or 3. 1 is
10 accept; 2 is okay, maybe it's not
11 perfect, but it has compensating factors;
12 and 3 is reject.

13 But what happens is when you get to
14 the 3s, oftentimes the purchaser waives
15 any prior constraints and they -- they
16 rank them as 2W, that's all.

17 But what I'm trying to get at here
18 is, if you look at the first bullet point
19 under the heading at the top that says
20 "DTI" --

21 MS. HAGGERTY: Um-hum.

22 MR. KREBS: -- and that's debt to
23 income?

24 MS. HAGGERTY: Yes --

25 MR. KREBS: And if you look --

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: -- typically, debt-
3 to-income ratio.

4 MR. KREBS: -- and if you look over
5 here to the right, it says Clayton
6 default is "EV-3 greater than sixty", is
7 that right?

8 MS. HAGGERTY: That's what it says,
9 yes.

10 MR. KREBS: But Bear-EMC preferences
11 are EV-3 greater than fifty-five.

12 Now, I -- I believe that EV means
13 event value -- or event 3, meaning it's a
14 reject. If it is over fifty-five on the
15 DTI, it's to be rejected.

16 MS. HAGGERTY: I believe that's what
17 it means, too.

18 MR. KREBS: All right. Are you
19 familiar with those? Are you familiar
20 with the underwriting standards that were
21 in play -- or in place then at Bear
22 Stearns, do you recall? And EMC during
23 2005/2006.

24 MS. HAGGERTY: I was at the time,
25 and so my recollection for what they may

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 have been, specifically, back then, as I
3 sit here today, I -- I don't have a great
4 recall.

5 MR. KREBS: Go down the other, to
6 the credit score. You see it's three
7 bullet points down?

8 MS. HAGGERTY: Yes.

9 MR. KREBS: And it says "EV-3 less
10 than 500".

11 MS. HAGGERTY: Yes.

12 MR. KREBS: But over here, it says
13 "depends on bid stips". What are bid
14 stips?

15 MS. HAGGERTY: When an originator
16 puts the pool out -- a bulk pool out for
17 bid --

18 MR. KREBS: Uh-huh.

19 MS. HAGGERTY: -- they may say -- or
20 they would -- I'm sorry, the credit score
21 would be one of those attributes that I
22 described. So when EMC would bid that,
23 they bid the pool to the originator, they
24 may make a list of stipulations that goes
25 with that bid.

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 So one of them might be we won't
3 accept anything with a credit score less
4 than 520, or it may be we wouldn't accept
5 anything with a credit score less than
6 500 or 600 or whatever it might be.

7 So that's what this would mean to
8 me; that, on an individual trade basis,
9 the instruction to Clayton would be for
10 the minimum credit score, take a look at
11 the terms of that particular deal.

12 MR. KREBS: That particular bid stip
13 that accompanied this particular due
14 diligence review?

15 MS. HAGGERTY: Correct.

16 MR. KREBS: What were other
17 variables that Bear Stearns would utilize
18 in connection with bid stip? Do you
19 recall? LTVs, CLTVs?

20 MS. HAGGERTY: Anything that was a
21 loan-level attribute could be considered
22 a bid stip, insofar as the originator or
23 the seller is presenting that data --

24 MR. KREBS: Um-hum.

25 MS. HAGGERTY: -- and EMC is making

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 its bid based on that data.

3 So if there was a, you know, an LTV
4 of ninety-five percent on that tape, EMC
5 is saying, by accepting the -- or making
6 a bid, that that's okay.

7 Sometimes, EMC or the trader may
8 have created a set of bid strips that went
9 in contradiction. So they may have --
10 the bid strip may have said maximum of
11 ninety, even if there was a ninety-five
12 on the tape. So yes, LTV would certainly
13 be one, maximum loan amount might be one.
14 Those are the -- the types of things that
15 come to mind (indiscernible) --

16 MR. KREBS: Well, in fact, if you
17 look here, down about the sixth bullet
18 point, it says "LTVs or CLTVs over one
19 hundred percent". The Clayton default
20 would be to accept it, but the response
21 here is it looks like Bear Stearns would
22 say reject it unless otherwise specified.

23 MS. HAGGERTY: I'm, frankly,
24 surprised to see Clayton accept that.
25 That is unusual -- was unusual at the

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 time in the industry.

3 MR. KREBS: What about negative am
4 loans, which are two lines down from
5 there?

6 MS. HAGGERTY: Neg am loans were a
7 specific product type that you typically
8 did not see in subprime. So it -- it's a
9 subprime credit profile. Again, I'm
10 surprise to see neg am along with
11 subprime.

12 MR. KREBS: Going down to cash-out
13 purchases --

14 MS. HAGGERTY: Um-hum.

15 MR. KREBS: -- do you see that? EV-
16 3 is a Clayton default, but the answer --
17 the -- Bear EMC preferences are to ask
18 Bear Stearns underwriting -- I guess
19 that's what that means, UW?

20 MS. HAGGERTY: Yes, that's what I
21 would assume it means.

22 Cash-out purchase. That's unusual.

23 MR. KREBS: Yeah.

24 MS. HAGGERTY: Cash-out refi is
25 usual. Cash-out purchase, I'm not

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010
2 familiar with.

3 MR. KREBS: Would there be a series
4 of bid stips or -- were your bid stips
5 standard, at least with respect to
6 subprime credit debt, do you recall?

7 MS. HAGGERTY: I don't recall, but I
8 would say that, certainly, things change
9 from time to time.

10 MR. KREBS: Do you recall having
11 seen or actually eyeballed a series of
12 bid stips with respect to the credit --
13 subprime credit?

14 MS. HAGGERTY: As I sit here today,
15 no. I will tell you, back then, I'm sure
16 I did look at them, but as I sit here
17 today, I just don't recall.

18 MR. KREBS: Well, if I understand
19 you that the invitation to bid is
20 received and it -- and is accompanied
21 with a tape and underwriting standards,
22 and your response to that would be we
23 will buy it under -- or we would like to
24 make a bid under these conditions, which
25 may or may not be acceptable to the

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 originator. And among those conditions
3 was the bid strips, is that right?

4 MS. HAGGERTY: Yes.

5 MR. KREBS: Were reps and warranties
6 from your side also part of that?

7 MS. HAGGERTY: Yes. The bids were
8 always subject to the negotiation of the
9 mortgage loan purchase agreement.

10 MR. KREBS: When were the reps and
11 warranties negotiated? Were they at the
12 front end or the back end, or at the
13 front end and amended at the back end,
14 depending on the due diligence review?

15 MS. HAGGERTY: They were never
16 amended depending on the due diligence
17 review. The reps were the reps. And the
18 way I like to do the business is
19 negotiate them up front before you even
20 have a trade, because then everybody
21 knows how we're engaging, we know how the
22 trade is going to work. And you don't
23 want to do a trade and then have things
24 that might cause you to not settle.

25 MR. KREBS: Um-hum.

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: So the more of the
3 standard documentation or the
4 documentation required to close you can
5 do up front, the better.

6 So typically, you know, I always
7 advocated that let's get all the reps and
8 warranties negotiated up front, but it
9 didn't always work that way. Sometimes
10 we did a trade and then negotiated the
11 mortgage loan purchase agreement prior to
12 settlement.

13 MR. KREBS: The trade, of course,
14 wasn't completed until such time as the
15 due diligence had been completed, is that
16 right?

17 MS. HAGGERTY: Typically, yes.

18 MR. KREBS: What were the factors
19 involved in the contingent purchase of
20 this pool? Can you tell me?

21 MS. HAGGERTY: The factors in the --

22 MR. KREBS: Yeah, I mean what --
23 what was it that was contingent? Was it
24 the reps and warranties had to be signed,
25 we had to make certain that certain

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010
2 percentage of loans were -- you didn't
3 have X percent reject -- rejected loans.
4 What were -- what were the
5 (indiscernible)?

6 MS. HAGGERTY: Okay, sure. Yes, the
7 mortgage loan purchase agreement had to
8 be negotiated and finalized and signed
9 off on.

10 With respect to the due diligence,
11 typically what we did at Bear Stearns is,
12 in subprime, and it -- and the due
13 diligence protocols varied by product.
14 So would you like to talk about subprime
15 specifically?

16 MR. KREBS: Sure. I mean let's do
17 subprime and then we'll come back to
18 others --

19 MS. HAGGERTY: Okay.

20 MR. KREBS: -- and find out how
21 different they were.

22 MS. HAGGERTY: For subprime, we --
23 best of my recollection, we did a hundred
24 percent due diligence. We looked at
25 every loan for credit -- what we called

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 credit -- which would have been a desk
3 review of the loan file to see if it
4 conformed with the agreed-upon
5 underwriting guidelines. There would be
6 a compliance review. There would be a
7 data review, meaning that the -- the
8 loan-level information provided on the
9 tape -- or the Excel spreadsheet --
10 matched the documents in the loan file.

11 MR. KREBS: Um-hum.

12 MS. HAGGERTY: And then for
13 subprime, I believe we also did some sort
14 of review of the appraised value of the
15 property. And I -- I don't recall, as
16 we're sitting here, if those were -- if
17 we did BPOs or AVMs or drive-bys. I just
18 don't recall what we did.

19 MR. KREBS: So you did credit -- you
20 did compliance as well --

21 MS. HAGGERTY: Yes.

22 MR. KREBS: -- made sure -- and then
23 you did valuation.

24 MS. HAGGERTY: I believe we did, on
25 subprime.

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. SIMHAI: When you said that you
3 review to see if they matched to your
4 agreed underwriting guidelines, what --
5 what was the agreed underline --
6 underwriting guidelines? Meaning, were
7 they the guidelines of the originator,
8 were they Bear Stearns' specific
9 guidelines?

10 MS. HAGGERTY: They were both. What
11 we did at EMC was we would review the
12 originator's guidelines and approve them.
13 We would either approve them as they were
14 or we would approve them and say except
15 for these three things, your guidelines
16 are acceptable.

17 And oftentimes, what that really was
18 tantamount to was comparing the
19 originator's guidelines to an EMC
20 guideline and highlighting the
21 difference. So in some cases, we were
22 using the originator's guidelines, and
23 then in other cases, we used the
24 originator's as modified to match EMC's
25 guidelines.

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: How were those
3 modifications transmitted to the due
4 diligence third party provider?

5 MS. HAGGERTY: They should have been
6 provided by Pattie Sears or John
7 Mongelluzzo, as the due diligence
8 managers. And Pattie Sears is S-E-A-R-S
9 and John Mongelluzzo is
10 M-O-N-G-E-L-L-U-Z-Z-O.

11 MR. KREBS: Were Pattie and John
12 responsible for affecting liaison with a
13 lead person from Clayton?

14 MS. HAGGERTY: Yes.

15 MR. KREBS: Would they attend
16 offsite reviews with Clayton?

17 MS. HAGGERTY: Typically not.

18 MR. KREBS: How was it they would
19 communicate? That is, the due diligence
20 results. How would they be transmitted
21 back to Pattie and John?

22 MS. HAGGERTY: I don't have direct
23 knowledge of that, but I believe that it
24 would be via e-mail. And I also believe
25 they would have spoken on the phone

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010
2 throughout the engagement.

3 MR. KREBS: Were the responses to
4 the bids -- we've heard them described as
5 overlays or as tolerances. Do you have
6 any knowledge of the use of those terms
7 with respect to the originator's
8 guidelines -- underwriting guidelines?

9 MS. HAGGERTY: Overlays?

10 MR. KREBS: Uh-huh.

11 MS. HAGGERTY: I think overlays --
12 and again, I'm guessing, depending on who
13 used the term. But as an industry term,
14 it would make sense to me that overlay
15 was what I just kind of described --

16 MR. KREBS: Um-hum.

17 MS. HAGGERTY: -- where you're
18 comparing the originator's guidelines
19 that they use to make the loans with,
20 say, your own guidelines and what's
21 different.

22 Just, as an example, let's say that
23 the originator would to a ninety-five LTV
24 to some loan amount, and you would only
25 want to take a ninety-five LTV to a lower

Page 32

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 loan amount. So you might say I accept
3 your guidelines, originator, except that
4 I'll only go to this loan amount for that
5 LTV.

6 MR. KREBS: So is it -- is it your
7 impression that the materials provided as
8 an overlay -- we'll use that as a term of
9 ours -- were, perhaps, more stringent
10 than the guidelines from the originator?

11 MS. HAGGERTY: I would say by
12 definition, they should be. Because if
13 the originators were less -- if the
14 originator's guidelines were more
15 conservative, let's say, than the
16 investor's, there would be no reason to
17 do an overlay, because by definition,
18 that originator's guidelines would be
19 will within the investor's guideline.

20 MR. KREBS: That's all that I have
21 on that document.

22 What I'm going to show you is going
23 to be marked as Exhibit Number 2 to your
24 testimony. And that is Clayton -- you're
25 familiar with Clayton, obviously.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: Yes.

3 MR. KREBS: And did you use them as
4 a due diligence firm in connection with
5 preparing or reviewing loans in
6 connection with securitizations?

7 MS. HAGGERTY: We used Clayton as a
8 due diligence firm in connection with
9 purchasing bulk packages of whole loans,
10 yes.

11 MR. KREBS: All right. This is a
12 document. It's actually page 2 of the
13 document. And there's Bear EMC, and if
14 you'll look at the middle line where it
15 says "final rejection rate" --

16 MS. HAGGERTY: Um-hum.

17 MR. KREBS: -- you see that?

18 MS. HAGGERTY: Yeah.

19 MR. KREBS: Do you see where the
20 total Bear EMC final rejection rate is?
21 You see that that is a nine percent?

22 MS. HAGGERTY: I see nine percent,
23 yes.

24 MR. KREBS: Do you know what waivers
25 are?

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: I know what waivers
3 are in the context of Fannie Mae.

4 MR. KREBS: Okay. Do you know
5 whether or not a waiver in this context
6 means that, notwithstanding that a loan
7 was ranked as 3, that on forty-two
8 percent of those loans ranked as 3, Bear
9 Stearns EMC waived them in an accepted
10 those loans?

11 MS. HAGGERTY: I don't know what
12 waiver means on this document.

13 MR. KREBS: Well, we have another
14 one that defines it --

15 MS. HAGGERTY: Okay.

16 MR. KREBS: -- all right?

17 MS. HAGGERTY: Sure.

18 MR. KREBS: Now, is it your -- I
19 understood that you -- you say that
20 Clayton did one hundred -- or you did one
21 hundred percent due diligence on the
22 loans, is that right?

23 MS. HAGGERTY: I think what I said
24 is that, typically for subprime, it was
25 our practice to do a hundred percent

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 diligence, yes.

3 MR. KREBS: Are you saying -- do you
4 believe, then, that for the first quarter
5 of 2006 through the second quarter of
6 2007, that Bear Stearns had under -- had
7 due diligence performed at only 72,379
8 loans? That's on the line, right next to
9 the final reject. Right?

10 MS. HAGGERTY: I -- I don't know how
11 this document was created. I don't know
12 what 2006-1 means, 2006-3 means. I don't
13 know --

14 MR. KREBS: Well I will represent to
15 you that 2006-1 is the first quarter of
16 2006 --

17 MS. HAGGERTY: Oh, okay.

18 MR. KREBS: -- and the second
19 quarter of 2006, and so on until you get
20 down to 2007-2, which would be the second
21 quarter of 2007.

22 MS. HAGGERTY: Okay.

23 MR. KREBS: And this purports to
24 be -- and we have the testimony behind
25 it -- to be an amalgamation of all the

Page 36

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 due diligence efforts done by Clayton.

3 MS. HAGGERTY: Okay.

4 MR. KREBS: Now, was Clayton the
5 exclusive due diligence firm employed by
6 Bear Stearns EMC?

7 MS. HAGGERTY: No.

8 MR. KREBS: Who else did you
9 utilize?

10 MS. HAGGERTY: It was a company
11 called Watterson Prime that also, during
12 its tenure, was purchased by
13 PricewaterhouseCoopers --

14 MR. KREBS: Um-hum.

15 MS. HAGGERTY: -- so sometimes, they
16 called themselves Watterson Prime, and
17 sometimes, PwC.

18 MR. KREBS: Did you ever use Bohan
19 Group?

20 MS. HAGGERTY: Yes, but very early
21 on, and just for a couple of
22 transactions.

23 MR. KREBS: Did you ever use 406
24 Partners?

25 MS. HAGGERTY: I don't think so, no.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: Are you familiar with
3 them?

4 MS. HAGGERTY: No.

5 MR. KREBS: Okay.

6 MS. HAGGERTY: I know them as a --
7 maybe a BPO provider, if I'm remembering
8 right.

9 MR. KREBS: Did -- did you use any
10 other -- to your knowledge, sitting here
11 today, any other due -- third party due
12 diligence providers or vendors?

13 MS. HAGGERTY: Yeah, I think that we
14 tried one or two transactions with a
15 company called MortgageRamp.

16 MR. KREBS: MortgageRamp?

17 MS. HAGGERTY: Yeah, R-A-M-P, and
18 that would have been on Alt-A.

19 And then when we talk -- when we're
20 talking about due diligence and the firms
21 that we've just named --

22 MR. KREBS: Um-hum.

23 MS. HAGGERTY: -- we're talking
24 about the file review. The valuation
25 work is a separate group of vendors.

Page 38

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: I understand. So if,
3 for example, you had a question about the
4 valuation or the appraisal on a home, you
5 would go to one of these firms to ask
6 them to either do a -- an automated
7 review, based on their database, or you'd
8 have them send somebody to drive by -- or
9 maybe both -- to determine the value of
10 the home. Is that right?

11 MS. HAGGERTY: On subprime
12 transactions, we sometimes did that, yes.
13 That was not typically done on Alt-A or
14 jumbo product.

15 MR. KREBS: Approximately how many
16 transactions did -- if you can recall; I
17 know this may be a tough question. How
18 many transactions did Bear Stearns engage
19 in in 2006 and through the second quarter
20 of 2007?

21 MS. HAGGERTY: I don't recall.

22 MR. KREBS: Did Bear Stearns have
23 its own captive origination firms?

24 MS. HAGGERTY: Yes.

25 MR. KREBS: Who was that?

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: It was a company
3 called Bear Stearns Residential Mortgage
4 Corp.

5 MR. KREBS: Bear Res?

6 MS. HAGGERTY: That's right.

7 MR. KREBS: Yeah.

8 MS. HAGGERTY: Bear Res.

9 MR. KREBS: Were -- was Bear Res
10 also a provider of mortgage loans that
11 were subsequently securitized?

12 MS. HAGGERTY: Yes.

13 MR. KREBS: Was due diligence
14 performed by third party due diligence
15 providers on the mortgages generated by
16 Bear Res?

17 MS. HAGGERTY: We hired staff from
18 the Clayton group to be on site at Bear
19 Res in the beginning of its operations --
20 I don't recall exactly how long they
21 stayed -- so that we could -- we could do
22 that due diligence as the loans were
23 being made, rather than wait to have a
24 whole pool.

25 So that continued for some time.

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 And I don't remember how long that
3 continued.

4 MR. KREBS: Do I understand to mean
5 that you employed employees of Clayton to
6 come over and assist you -- or to conduct
7 the due diligence work for Bear Res as
8 the loans were originated?

9 MS. HAGGERTY: Yes, in the beginning
10 of the operation.

11 MR. KREBS: What happened -- I mean
12 was there a time when that changed?

13 MS. HAGGERTY: Yeah, there was. And
14 I don't recall exactly when, but there
15 was a time where the results of those --
16 that Clayton review was positive and we
17 felt that we didn't need to continue
18 that.

19 MR. KREBS: So you had brought your
20 staff up to speed to what Clayton knew
21 and they could do it on their own?

22 MS. HAGGERTY: The -- the team that
23 was assembled at Bear Res were very
24 seasoned mortgage originators, but yes,
25 with the -- with the startup of any, you

Page 41

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 know, new origination company, you want
3 to make sure everything is running
4 smoothly. And so that's why we did that,
5 yes.

6 MR. KREBS: Were -- after the
7 Clayton folks departed, was due diligence
8 continued on Bear Res' mortgage loan
9 origination work?

10 MS. HAGGERTY: No.

11 MR. KREBS: It was not?

12 MS. HAGGERTY: Correct.

13 MR. KREBS: And -- and the --
14 presumably, the belief was that the
15 people who were there originating loans
16 had grown up under the developmental --
17 had been overviewed by Clayton and knew
18 what the standards were?

19 MS. HAGGERTY: That's right.

20 MR. KREBS: From 2003 to 2007, did
21 you ever notice a decline in the
22 underwriting standards in this industry,
23 the mortgage origination business?

24 MS. HAGGERTY: 2003 to 2007. I
25 noticed in subprime, for example, that,

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 over time, the maximum loan-to-value
3 ratio that was accepted increased. That
4 comes to mind specifically.

5 And also, over time, I think in the
6 Alt-A programs, the same thing; that
7 the -- the maximum combined loan-to-value
8 ratios increased to a hundred percent,
9 over time.

10 MR. KREBS: Did you see any
11 deterioration in the FICO score?

12 MS. HAGGERTY: The FICO scores, I
13 would say no. The banding for the FICO
14 scores, in terms of guidelines, my
15 recollection, it stayed pretty static.

16 Alt-A tended to be a minimum of 620
17 at the bottom, with the average around
18 680-ish. And subprime, I think, varied,
19 depending on the originator. I think,
20 over time, it became typical to -- to
21 institute a minimum of 500 or 520,
22 whereas, maybe prior to that, it was
23 lower. And that had something to do, I
24 think, with the increase in the LTV.

25 MR. KREBS: Any other areas where

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 you saw or you observed deterioration on
3 a -- throughout an industry-wide basis?

4 MS. HAGGERTY: The other thing that
5 developed was the continuation of the
6 reduced documentation products. So
7 earlier on in Alt-A, you had full doc and
8 stated income --

9 MR. KREBS: Um-hum.

10 MS. HAGGERTY: -- and then what was
11 added over time was the no ratio product
12 and the no doc product, and the no
13 income, no asset verification product.

14 MR. KREBS: Any others?

15 MS. HAGGERTY: For -- in terms of
16 products themselves, a product that came
17 into the market during that time period
18 was for the neg am firms.

19 MR. KREBS: Well, what about the
20 3/27 and the 2/28 loans? Did you see a
21 lot of those? When did they come into
22 play?

23 MS. HAGGERTY: 3/27s and 2/28s were
24 traditionally the adjustable-rate
25 component of subprime. So those had

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 always been part of the programs for
3 subprime.

4 MR. KREBS: On the DTI, did you use
5 the teaser? Why did you use the ultimate
6 increase -- potential increased rate?

7 MS. HAGGERTY: To the best of my
8 recollection, the guidelines used the
9 fully indexed rate to underwrite, to
10 qualify.

11 MR. KREBS: What number would they
12 use? Would they make an estimate of the
13 number?

14 MS. HAGGERTY: An estimate of
15 income?

16 MR. KREBS: No -- you -- you're
17 right. You're right. I withdraw that
18 question; I was chasing the wrong trail.

19 MR. CUNICELLI: If I could just get
20 one second.

21 MR. KREBS: Go.

22 MR. CUNICELLI: The -- the 2/28s and
23 the 3/27s, they were always in -- in the
24 ARMs, but did you see an increase in
25 their use during that time, as a

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 percentage of your portfolio?

3 MS. HAGGERTY: I don't really
4 recall.

5 MR. CUNICELLI: Okay. Thanks.

6 MR. KREBS: Did you -- did you see
7 an increase in the use of the Alt-As?

8 MS. HAGGERTY: The volumes that we
9 bought at Bear Stearns increased from
10 2003 to 2006, yes. Just in general,
11 across the board.

12 MR. KREBS: When you were approached
13 by an originator wanting to sell a pool,
14 what would you do to confirm or to verify
15 that his underwriting standards were as
16 he represented them? The due diligence
17 process, and that was it?

18 MS. HAGGERTY: Yes.

19 MR. KREBS: How often would you deal
20 with an originator with whom you had done
21 business before?

22 MS. HAGGERTY: So for -- an
23 originator that sells bulk would bring
24 packages maybe every two weeks or once a
25 month, just depending on their -- on the

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 size of their origination book and their
3 warehouse capacity. So I -- I think it
4 really varied.

5 We certainly didn't buy every pool
6 every time. I think at one point, during
7 the period, I just recall that we were at
8 like a twenty percent win rate, overall,
9 on the bulks that were presented.

10 MR. KREBS: I'm not sure I
11 understand that. Twenty percent?

12 MS. HAGGERTY: So if -- if a hundred
13 pools --

14 MR. KREBS: Um-hum.

15 MS. HAGGERTY: -- were presented to
16 us over a time a period --

17 MR. KREBS: Yes.

18 MS. HAGGERTY: -- we won twenty of
19 them.

20 MR. KREBS: Okay. You -- you --
21 you --

22 MS. HAGGERTY: And other people won
23 the other eighty.

24 MR. KREBS: Who were your principal
25 sellers of pools?

Page 47

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: And again, would you
3 like to focus specifically on subprime --

4 MR. KREBS: Yeah, subprime.

5 MS. HAGGERTY: -- or just across the
6 board. I'm sorry --

7 MR. KREBS: Let's just deal with
8 subprime now.

9 MS. HAGGERTY: Okay, I'm sorry. I
10 keep --

11 MR. KREBS: That's all right.

12 MS. HAGGERTY: -- talking in
13 general.

14 Subprime.

15 MR. KREBS: And then we'll come
16 back.

17 MS. HAGGERTY: We bought a product
18 from Encore, People's Choice,
19 MortgageIT --

20 MR. KREBS: I'm sorry. That was
21 what?

22 MS. HAGGERTY: MortgageIT,
23 Ameriquest, from time to time, New
24 Century. Those are some of the names
25 that come to mind.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 48

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: Wells Fargo Home
3 Mortgage?

4 MS. HAGGERTY: Wells Fargo was a big
5 customer of the firm on the jumbo and
6 Alt-A side, and so we would have bid
7 their product if they presented subprime
8 to us, yes. I don't recall how much we
9 bought of subprime from them.

10 MR. KREBS: Quick Loan Funding?

11 MS. HAGGERTY: Yes.

12 MR. KREBS: Impac --

13 MS. HAGGERTY: Yes.

14 MR. KREBS: -- Impac Funding?

15 MS. HAGGERTY: Yes.

16 MR. BORBERS: Fremont Investment &
17 Loan?

18 MS. HAGGERTY: Yes, we bought from
19 Fremont.

20 MR. KREBS: Comm Unity Linden
21 Associates (ph.)?

22 MS. HAGGERTY: Comm Unity rings a
23 bell, yes. Whether that was specifically
24 subprime or not --

25 MR. KREBS: (Indiscernible) number

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 3.

3 MS. HAGGERTY: -- not sure.

4 MR. KREBS: What I'm showing to you
5 is a document again, trending reports
6 generated by Clayton. Have you seen
7 these documents before? Trending
8 reports.

9 MS. HAGGERTY: I don't recall this
10 document, no.

11 MR. KREBS: Was there a point in
12 time where the Clayton folks came to and
13 met with Bear Stearns to discuss the
14 trending reports, that you're aware of?

15 MS. HAGGERTY: I don't know.

16 MR. KREBS: If they had come to Bear
17 Stearns to discuss the impact or the
18 findings of this trending report, who
19 would they likely have met?

20 MS. HAGGERTY: I believe it'd be
21 likely they would've met with John
22 Mongelluzzo.

23 MR. KREBS: And John was responsible
24 for the due diligence side?

25 MS. HAGGERTY: Yes.

Page 50

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: And he was -- where was
3 John in the organizational chart with
4 respect to your position?

5 MS. HAGGERTY: John worked in the
6 mortgage finance department, of which I
7 was co-head. So he reported up to me.

8 MR. KREBS: Were you ever made aware
9 of a meeting between Clayton and any
10 person in your operation to discuss the
11 trending reports of Clayton Brokerage?

12 MS. HAGGERTY: I don't recall.

13 MR. KREBS: All right. Let me ask
14 you to look at the second page of this
15 document.

16 MS. CAREY: Tom --

17 MR. KREBS: Yeah.

18 MS. CAREY: We were talking before
19 about, in the context of subprime --

20 MR. KREBS: Yes.

21 MS. CAREY: -- it's unclear here
22 whether this has anything to do with
23 (indiscernible) --

24 MR. KREBS: I think this is subprime
25 as well, but I cannot represent that to

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 you. I -- I do not know whether this is
3 exclusively subprime. I do believe that
4 it -- it is based on all of the due
5 diligence done by Clayton and it is a
6 document that would have been triggered
7 by the generation of this document.
8 My -- that's my understanding.

9 You see the waivers here? It says
10 that "Bear Stearns overall waiver rate
11 seven percent compared to Clayton
12 industry average of eleven percent for
13 all summary reviews performed by all
14 clients for the same period"?

15 MS. HAGGERTY: Um-hum. Yes.

16 MR. KREBS: Did you see this, where
17 the highest waiver rate among the top
18 five sellers was found on Encore reviews,
19 while the lowest was found on Fieldstone.
20 Have you ever dealt with Fieldstone, to
21 your knowledge?

22 MS. HAGGERTY: Fieldstone was a
23 seller to EMC, I believe. I know that
24 EMC bid their product.

25 MR. KREBS: Says that the most

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 commonly waived exceptions for Encore
3 were "MA borrower interest outside safe
4 harbor, not client approved". Do you
5 know what that means?

6 MS. HAGGERTY: I don't. It's
7 ringing a bell. MA, I believe, stands
8 for Mass --

9 MR. KREBS: You're -- you're a lot
10 more likely to know what it means than I
11 am, I'll tell you, at this point.

12 MS. HAGGERTY: MA, I believe, stands
13 for Massachusetts.

14 MR. KREBS: Uh-huh.

15 MS. HAGGERTY: And the bell that
16 it's ringing is somewhere along the
17 line -- states came up with their own
18 individual high-cost lending rules in
19 addition to the national HOEPA
20 requirements. So I recall that there was
21 something in Massachusetts.

22 And "interest outside safe harbor,
23 not client approved" must refer to that.
24 And my recollection is it wasn't clear
25 what the risk of nonenforcement was, if

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 you will. So that could be what that
3 was.

4 I'm very shaky on the details, but
5 I'm just offering you what I think it
6 could be.

7 MR. KREBS: With respect to a loan
8 that was, say, questionable -- wasn't
9 exactly in the parameters of a reject and
10 it wasn't exactly an acceptable loan --
11 what were the factors that you might have
12 considered -- or Bear Stearns at that
13 time considered in connection with
14 approving or rejecting those loans?

15 MS. HAGGERTY: Okay. One -- to that
16 point --

17 MR. KREBS: Sure.

18 MS. HAGGERTY: -- what we just
19 looked at with Massachusetts --

20 MR. KREBS: Uh-huh.

21 MS. HAGGERTY: -- is a compliance
22 point.

23 MR. KREBS: Right.

24 MS. HAGGERTY: The compliance points
25 tended to be pretty cut and dry --

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: You can't -- you can't
3 waive those.

4 MS. HAGGERTY: It is or it isn't --

5 MR. KREBS: Yeah.

6 MS. HAGGERTY: Right. So the
7 compensating factor analysis, that you
8 talked about --

9 MR. KREBS: Um-hum.

10 MS. HAGGERTY: -- before, with the
11 2, would be on the credit side. And so
12 if Clayton coded something as a 2, they
13 thought there was a compensating factor.
14 That could be something like the maximum
15 loan-to-value ratio for the program is
16 seventy-five percent; the originator made
17 the loan at eighty percent; but the
18 compensating factor is that the homeowner
19 has 100,000 dollars in the bank.

20 MR. KREBS: Um-hum.

21 MS. HAGGERTY: So that's the type of
22 thing that would be evaluated.

23 MR. KREBS: Who is it that would
24 have made the decision to accept or
25 reject that loan, based on those

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 circumstances you just described?

3 MS. HAGGERTY: Well, Clayton came up
4 with the 2s --

5 MR. KREBS: Um-hum.

6 MS. HAGGERTY: -- so they made the
7 decision that there was enough of a
8 compensating factor in the file to call
9 it a two.

10 MR. KREBS: Based on what they had
11 been given and what they understood the
12 underwriting guidelines were?

13 MS. HAGGERTY: Correct. Correct.

14 MR. KREBS: All right. What happens
15 when the 3s come up, the waivers?

16 MS. HAGGERTY: Well, again, waiver
17 is -- is something -- I'm not familiar
18 with that term in -- in how we did things
19 at Bear.

20 What would typically happen with 3s
21 is that the due diligence firm should
22 present them to the seller, because
23 sometimes 3s occur just because
24 documentation is missing.

25 The other thing that we would always

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 want to make sure is that Clayton -- the
3 Clayton reviewer wasn't missing something
4 in the file. So it was typical to give
5 the seller the opportunity to look at the
6 3s and see if they could provide
7 additional information or point out a
8 compensating factor, let's say, to -- to
9 show the Clayton lead that this is not a
10 3; it's a 2 or it's a 1.

11 MR. KREBS: Well, in point of fact,
12 Clayton did have a 2T, which was a -- to
13 give somebody the opportunity to bring in
14 documents that were missing from the
15 file. That -- so that wouldn't have
16 counted as in the 2Ws that they were
17 pushing out.

18 If you look at the bottom here,
19 "exception-level waivers". It says by
20 far, the most common waiver exception
21 laws, "loan characteristics do not match
22 any available program. With 681 waivers,
23 representing eleven percent of all waived
24 exceptions".

25 Do you know what "that loan

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 characteristics do not match any
3 available program" might have been?

4 MS. HAGGERTY: I don't. But what I
5 would say is, what it could be is -- what
6 would come to mind would be an example
7 like I just gave, the loan-to-value
8 ratio --

9 MR. KREBS: Um-hum.

10 MS. HAGGERTY: -- is outside of the
11 parameters and it became an acceptable
12 risk --

13 MR. KREBS: Well if you look at the
14 next one --

15 MS. HAGGERTY: -- to whomever was
16 evaluating it.

17 MR. KREBS: -- the -- the next one
18 is actually the one that I'm concerned
19 about. The most common waived exception
20 in 2007 reviews was "stated income not
21 reasonable".

22 How is it that you came -- those
23 waivers were affected? What compensating
24 factors were there that would make income
25 that appeared not reasonable to become

Page 58

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 reasonable? Or other compensating
3 factors.

4 And you may not know the answer to
5 that; this is not a cross-examination. I
6 really don't know the answer to it; I'm
7 just trying to get the data.

8 MS. HAGGERTY: Yeah, understood.
9 And -- and I think that in the case of
10 "stated income not reasonable" and, in
11 fact, I think the case of all the
12 exceptions, it's very much facts and
13 circumstances of the individual files.

14 So, for example --

15 MR. KREBS: Yes.

16 MS. HAGGERTY: -- it could be a
17 couple of things.

18 One thing could be that -- let's
19 say, for example, the stated income
20 resulted in a debt-to-income ratio of
21 twenty-five percent and Clayton says that
22 stated income is not reasonable. But an
23 income that was reasonable resulted in a
24 debt-to-income ratio of forty percent,
25 which was still within the acceptable

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010
2 debt-to-income guidelines. That could be
3 a reason that you would waive the Clayton
4 finding. Again, just an example --

5 MR. KREBS: Sure.

6 MS. HAGGERTY: -- as a possibility.
7 Not saying that's what happened --

8 MR. KREBS: And again --

9 MS. HAGGERTY: -- possibility.

10 MR. KREBS: -- the two people who
11 would have been making those decisions
12 are John and Pattie?

13 MS. HAGGERTY: Pattie, correct.

14 MR. KREBS: Yeah.

15 MS. HAGGERTY: That's correct.

16 I think the other possibility that
17 something might get waived is a
18 difference of opinion between the Clayton
19 reviewer as to the reasonableness of
20 stated income, and John or Pattie.
21 That's another possibility.

22 MR. KREBS: And -- and those
23 concerns would have been transmitted to
24 John or -- or Pattie on a daily basis
25 from the Clayton due diligence site?

Page 60

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: You know, I think it
3 varied. I think, very frankly, Pattie
4 was more of a daily keep-up-with-it and
5 John kind of looked at stuff at the end.
6 But I think it -- I think it varied from
7 transaction to transaction.

8 MR. KREBS: Was this essentially the
9 same process, albeit with different
10 underwriting standards that were employed
11 in other loan origination or acquisition
12 of loans by Bear Stearns for the example
13 of family -- one-to-four families?

14 MS. HAGGERTY: For bulk purchases?

15 MR. KREBS: Yeah.

16 MS. HAGGERTY: Yes, this was
17 typically the way it went, I note, as a
18 very general matter.

19 MR. KREBS: But you feel quite
20 certain that Bear, with respect to
21 subprime, did a due diligence review on a
22 hundred percent of its loans?

23 MS. HAGGERTY: When we were the
24 purchaser?

25 MR. KREBS: Yes.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: When EMC was the
3 purchaser, yes. There may have been a
4 situation where we did less. And that,
5 again, would have been transaction-
6 specific, but my recollection is that we
7 typically did a hundred percent on the
8 loans we purchased from third parties.

9 MR. KREBS: That's a -- that's a
10 mystery to me. All right.

11 MR. BORGERS: I did have a question
12 about the due diligence on the -- who
13 developed the policy for the due
14 diligence area?

15 MS. HAGGERTY: The policy for the
16 due diligence area was developed by John
17 and Pattie and Baron and myself, along
18 with in-house counsel at the time.

19 MR. BORGERS: Okay.

20 MR. KREBS: I'm just showing you
21 what we'll probably mark as Exhibit 4.
22 If you read the first paragraph here, it
23 says, "critical lead" -- and that
24 presumably means the lead person at
25 Clayton -- "to call Bear due diligence

Page 62

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 manager on first morning of job. Leave
3 message, leave callback number and/or
4 cell number. If you're not aware which
5 contact you should call, contact Greg
6 Quinlan" (ph.) -- or somebody -- "this is
7 mandatory".

8 So it looks like, with respect to
9 the due diligence performed by Clayton,
10 that they were under instructions at the
11 commencement of the due diligence process
12 to be in touch with people at Bear.

13 MS. HAGGERTY: Makes sense, yes.

14 MR. KREBS: You'll see the first
15 bullet point says "please send in the
16 data every night so that we may run the
17 daily reports early the next morning".
18 What is a daily report? Do you know?

19 MS. HAGGERTY: That would have been
20 internal to Clayton, I believe.

21 MR. KREBS: You don't know whether
22 those daily reports were provided to
23 Bear?

24 MS. HAGGERTY: I don't. You know, a
25 certain element of what has to occur here

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010
2 is just managing the nuts and bolts of
3 getting through the work --

4 MR. KREBS: Um-hum.

5 MS. HAGGERTY: -- and keeping the
6 transaction -- or the work done on
7 schedule. So that may have been what
8 that was about.

9 MR. KREBS: If you look at the third
10 bullet point here, it indicates that the
11 bid stip overrides all guidelines and
12 must be followed closely. And that --
13 you've spoken about what bid stip were
14 earlier, right?

15 MS. HAGGERTY: Um-hum. Yes.

16 MR. KREBS: We'll come back to that
17 document in a little bit.

18 I think we're on what, Exhibit 6?

19 MS. CAREY: 5, I think.

20 MR. KREBS: 5?

21 MR. CUNICELLI: 5.

22 MR. KREBS: You -- this is not a
23 document created by Bear. It's a
24 document created by Clayton, but it shows
25 that in 2005, with respect to revenue,

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 Bear was pretty high up on the list. As
3 a matter of fact, it was second, only
4 behind Morgan Stanley.

5 But in 2006 and 2007, in terms of
6 the revenue generated -- that is,
7 presumably the revenue provided to
8 Clayton -- it fell behind just a little
9 bit, so that, if you look at loan volumes
10 on the line below it, well, Bear is --
11 was doing, in 2005, 132,000; in 2006,
12 61,000; and in 2007, 24,000. Does that
13 seem to be about right to you?

14 MS. HAGGERTY: As I sit here right
15 now, I don't know. It certainly seems
16 plausible.

17 Then again, these would be the loan
18 volumes that Clayton reviewed?

19 MR. KREBS: Yes.

20 MS. HAGGERTY: Yeah.

21 MR. KREBS: Clayton reviewed. That
22 is correct.

23 MS. HAGGERTY: Um-hum. Yeah.

24 MR. KREBS: I mean these are all
25 built off of the Clayton data.

Page 65

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: So not necessarily
3 the volume of loans that Bear Stearns or
4 EMC bought or securitized; these would be
5 the ones that Clayton reviewed --

6 MR. KREBS: These are --

7 MS. HAGGERTY: -- across all product
8 types?

9 MR. KREBS: Yes --

10 MS. HAGGERTY: Um-hum.

11 MR. KREBS: -- that -- that is
12 correct. Now --

13 MS. HAGGERTY: Okay.

14 MR. KREBS: -- did -- were there
15 loans reviewed by Clayton, to your
16 knowledge, that were not subsequently
17 securitized and -- or purchased by Bear?

18 MS. HAGGERTY: If Clayton reviewed
19 loans in a bulk purchase and Bear
20 rejected them and didn't buy them, yes.

21 MR. KREBS: Didn't buy the whole
22 pool -- or the --

23 MS. HAGGERTY: Or didn't --

24 MR. KREBS: -- or loans within the
25 pool?

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: -- or didn't buy the
3 rejects within the pool.

4 There may have been instances where
5 Bear didn't buy the pool at all. And
6 there would also be instances where
7 Clayton may have been used to do an
8 underwriter's due diligence sample, where
9 we didn't buy the loans, but they
10 reviewed loans that were in deals that
11 Bear was just the underwriter for.

12 MR. KREBS: I understand.

13 MS. HAGGERTY: So that could be part
14 of these -- should be part of these
15 numbers, too.

16 MR. KREBS: In -- in those
17 instances, how many of the loans -- what
18 percentage of the loans would have been
19 subjected to due diligence?

20 MS. HAGGERTY: I think it varied by
21 the product type of the -- the third
22 party issuer. But a typical rule of
23 thumb would have been ten percent --

24 MR. KREBS: Ten percent?

25 MS. HAGGERTY: -- of the pool.

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 Typical.

3 MR. KREBS: And -- but with respect
4 to those loans that Bear purchased,
5 brought in its own inventory and
6 subsequently packaged and securitized
7 under its own -- or a variety of names,
8 they did a hundred percent of the due
9 diligence on those, do you think?

10 MS. HAGGERTY: For subprime.

11 MR. KREBS: Okay.

12 We'll take a little break.

13 MS. HAGGERTY: Sure.

14 MR. KREBS: And then we'll pick up
15 here in a couple of minutes, if that's
16 all right.

17 Thank you.

18 (Break)

19 MR. CUNICELLI: All right. I've got
20 12:13, we're back on record.

21 MR. KREBS: Do you have any notion
22 as to what time that Bear Stearns ceased
23 its operations in connection with
24 performing due diligence for Bear Res?

25 And I'll tell you why I'm asking the

Page 68

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 question. I'm trying to determine
3 whether or not the 72,000 loans are
4 involved in the figures we have here from
5 Clayton. Would it have been before the
6 first quarter of 2006, before Bear Res
7 was up and operational and was put in --
8 doing its own internal due diligence?

9 MS. HAGGERTY: I think that's
10 possible, yes, because they started
11 making loans in April or May of '05 --

12 MR. KREBS: Okay.

13 MS. HAGGERTY: -- so that sounds
14 about right. Again, without certainty,
15 but it sounds reasonable.

16 MR. KREBS: What other
17 methodologies -- the purchase of -- of
18 bulk loans, the Bear Res generating
19 loans --

20 MS. HAGGERTY: Um-hum.

21 MR. KREBS: -- what other
22 methodologies, if any, did Bear Stearns
23 employ for the acquisition of loans,
24 mortgage loans, for its securitization
25 desk?

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 69

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: Bear Stearns had --
3 or EMC had a channel that we called the
4 flow conduit. And that was an operation
5 that was located in Lewisville, Texas
6 within the EMC Servicing operation. And
7 that operation reported up to the head of
8 EMC Servicing.

9 MR. KREBS: Well, describe to me the
10 flow conduit.

11 MS. HAGGERTY: Flow conduit was a
12 situation where an originator would be
13 approved to sell loans to the flow
14 conduit. And once approved to sell, that
15 originator would get a daily pricing
16 sheet.

17 Every day, for a certain period of
18 time -- call it 9 to 4, or something like
19 that -- the originator could then sell
20 loans to EMC by calling up the commitment
21 desk and registering the loans at a price
22 for delivery in thirty days or forty-five
23 days or sixty days out. On --

24 MR. KREBS: Let -- let me stop for
25 a -- Tom, are you still here?

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 70

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. BORGERS: Yes.

3 MR. KREBS: All right, sorry. I
4 apologize.

5 MS. HAGGERTY: So unlike bulk --
6 with bulk, the originator offered their
7 package of loans out to a number of
8 investors and Bear Stearns or EMC could
9 choose to bid them or not bid them.

10 MR. KREBS: Yes.

11 MS. HAGGERTY: But for flow, as long
12 as that originator was approved and in
13 good standing, they could sell, trade,
14 all day long, based on the prices that
15 were outlined on the rate sheet --

16 MR. KREBS: What were --

17 MS. HAGGERTY: -- the pricing sheet.

18 MR. KREBS: In addition to the
19 pricing sheet, were these people who
20 could sell loans to the conduit, the flow
21 conduit, were they also provided with
22 minimum standards or due diligence or
23 underwriting standards?

24 MS. HAGGERTY: Yes. Each flow
25 seller entered into a mortgage loan

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 purchase agreement. That mortgage loan
3 purchase agreement, over time, changed to
4 reference a seller guide. The seller
5 guide contained information about how to
6 register; how to deliver loans; in
7 general, what the process for reviewing
8 loans would be at EMC's operation; in
9 general, how the settlement process would
10 work; and it included underwriting
11 guidelines.

12 The sellers also had the option to
13 submit their own underwriting guidelines
14 for approval. And this is what I
15 described earlier, where staff at the EMC
16 flow conduit would review that seller's
17 own guidelines against EMC's --

18 MR. KREBS: Um-hum.

19 MS. HAGGERTY: -- and approve the
20 seller's guidelines, with certain
21 restrictions.

22 MR. KREBS: But the due diligence
23 was performed at the flow conduit level?

24 MS. HAGGERTY: Yes, it was performed
25 by employees of EMC. That's correct.

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: Were those loans -- or
3 any other loans, whether acquired through
4 the flow conduit or through the bulk loan
5 purchases -- were they ever re-
6 underwritten? Was there another
7 procedure that they had to go through or
8 was this the -- the procedure, the -- the
9 due diligence side of the procedure?

10 MS. HAGGERTY: The due diligence
11 review was the procedure that we went
12 through in order to buy the loans, yes.

13 In addition to that, there was a
14 quality control review that was done on a
15 sample of the loans. And that was done
16 after the loans were purchased by EMC.

17 MR. KREBS: Again, that was an in-
18 house review?

19 MS. HAGGERTY: Yes, although an
20 outsourcer was used to perform some of
21 it. And the name of that company was
22 Advitech, A-D-V-I-T-E-K -- C-H, I
23 believe.

24 MR. KREBS: So we have loans
25 purchased in bulk, loans generated by

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 Bear Res and the flow conduit. Were
3 there any other methodologies employed at
4 Bear Stearns for the acquisition of
5 mortgages that were ultimately to be
6 securitized?

7 MS. HAGGERTY: In 2007 -- February
8 of 2007, Bear Res completed its
9 acquisition of certain of the assets of
10 Encore Credit.

11 MR. KREBS: Not really good timing,
12 was it? I'm sorry, that -- everybody in
13 the room knows that now, I'm sure.
14 But -- and that was February of 2007?

15 MS. HAGGERTY: Correct.

16 MR. KREBS: Were those loans -- did
17 they appear in -- how -- how were the
18 loans generated by Encore Credit
19 evaluated for purposes of meeting the
20 guidelines? Were they subjected to due
21 diligence as well?

22 MS. HAGGERTY: Prior to the
23 settlement of the asset purchase, they
24 were subjected to due diligence, yes.
25 And after that, I don't recall exactly

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 what we did.

3 MR. KREBS: Going back to the flow
4 conduit and the acknowledgment and the
5 underwriting guidelines contained in the
6 seller guide. Were there also warranties
7 and representations regarding having
8 complied with the underwriting guidelines
9 by those persons who were providing loans
10 pursuant to the flow conduit?

11 MS. HAGGERTY: The mortgage loan
12 purchase agreement had many, many reps
13 and warranties. And, to the best of my
14 recollection, there was one that said the
15 loans are underwritten in accordance with
16 the agreed-upon guidelines.

17 MR. KREBS: Was due diligence
18 undertaken to determine whether to put
19 back those loans or some of those loans?

20 MS. HAGGERTY: The quality control
21 review that I spoke about --

22 MR. KREBS: Um-hum.

23 MS. HAGGERTY: -- that occurs post-
24 closing -- if the quality control review
25 showed a breach of the representation and

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 warranty --

3 MR. KREBS: Um-hum.

4 MS. HAGGERTY: -- and that breach
5 had a material and adverse effect on the
6 loan, then the loan was to be put back to
7 the originator. That was the standard in
8 the mortgage loan purchase agreement; the
9 breach had to have a material and adverse
10 effect on the loan.

11 MR. KREBS: Was -- was that term
12 also employed in connection with the bulk
13 purchases? "Material and
14 adverse" --

15 MS. HAGGERTY: Yes.

16 MR. KREBS: -- "effect".

17 MS. HAGGERTY: Um-hum.

18 MR. KREBS: Did Bear Stearns utilize
19 any warehouse lending for the acquisition
20 of mortgage loans?

21 MS. HAGGERTY: Bear Stearns had two
22 warehouse facilities. One was operated
23 under a company called Bear Stearns
24 Mortgage Capital Corporation and the
25 other was operated under a company called

Page 76

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 EMC Residential Mortgage Corporation.

3 The Bear Stearns Mortgage Capital
4 Corporation lines were to larger
5 originators, and they were what was
6 commonly referred to as aggregation
7 lines.

8 So, for example, a line may have
9 been extended to People's Choice such
10 that People's Choice could use that line
11 to make loans until they had enough
12 critical mass to do a securitization.
13 That was the general idea for that
14 warehouse business.

15 The one at EMC Residential was about
16 twenty or twenty-five customers. And
17 those, with an aggregate, at the largest,
18 of about 5- or 600 million in
19 outstandings --

20 MR. KREBS: Um-hum.

21 MS. HAGGERTY: -- and the purpose of
22 that line was to make warehouse funds
23 available to smaller sellers who were
24 then going to sell whole loans to end
25 investors.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 77

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 So two different business lines
3 within the firm.

4 MR. KREBS: Under either line, were
5 they -- were the recipients of the
6 warehouse loaning facility obligated to
7 sell their -- or to offer their loans to
8 Bear Stearns or were they free to offer
9 them to anybody on the street?

10 MS. HAGGERTY: They were free to
11 offer them to anybody on the street.

12 MR. KREBS: To the extent that they
13 were offered to Bear Stearns, were they
14 also subjected to due diligence as we've
15 discussed with respect to bulk purchases?

16 MS. HAGGERTY: Yes. Or to the flow
17 conduit --

18 MR. KREBS: Yes.

19 MS. HAGGERTY: -- due diligence,
20 depending on which channel they selected.

21 MR. KREBS: Explain that to me. How
22 were they given an option as to which
23 channel they could select?

24 I'm -- I'm -- you've just taken a
25 right turn and I didn't follow you --

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 78

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: Okay.

3 MR. KREBS: -- tell me.

4 MS. HAGGERTY: This would relate to
5 the EMC Residential warehouse line --

6 MR. KREBS: Uh-huh.

7 MS. HAGGERTY: So if I am a seller
8 that has a warehouse line with EMC
9 Residential, I may be allowed to sell
10 bulk and I may also be signed up to sell
11 flow. And the decision for an originator
12 to sell bulk or flow is really based on
13 their own risk appetite to take interest
14 rate risk.

15 MR. KREBS: Um-hum.

16 MS. HAGGERTY: So for flow, if I
17 make a -- a commitment to you, as a
18 homeowner, to sell you -- to do a loan
19 for you at five percent, the safest thing
20 for me to do that same exact day is to
21 sell your loan forward to somebody else.
22 So then I'm matched and I don't have any
23 risk. And that's called a best efforts
24 commitment.

25 MR. KREBS: Um-hum.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 79

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: If you don't close
3 with me, I don't have to deliver it out.
4 So for an originator, the safest thing to
5 do is to sell flow.

6 As the market heated up during that
7 time period, some originators chose to
8 bulk up and take some of that interest
9 rate risk to get more proceeds.

10 MR. BORGERS: I -- I have a question
11 about Encore Credit. Was that a -- which
12 side of the fence did they receive a
13 warehouse line, or could they receive it
14 under both the Bear Stearns and EMC?

15 MS. HAGGERTY: Encore's warehouse
16 line was Bear Stearns Mortgage Capital
17 Corporation.

18 MR. BORGERS: And do you know how
19 large of a facility that was?

20 MS. HAGGERTY: I don't recall, no.

21 MR. KREBS: During your tenure at
22 Bear Stearns, were there -- did there
23 come a point in time when you elected not
24 to deal with a particular loan
25 originator?

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 80

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: Yes.

3 MR. KREBS: Who was that?

4 MS. HAGGERTY: There were a number
5 of them. People's Choice would have been
6 one.

7 MR. KREBS: People's Choice?

8 MS. HAGGERTY: Yes.

9 There was a group within the EMC
10 operation that was responsible for
11 monitoring sellers and they would make
12 the recommendations to stop doing
13 business. So there were -- there were
14 quite a few.

15 What would happen first is we may
16 say -- or look at the performance and
17 say -- and this I recall in 2006 -- your
18 performance for a hundred percent LTV
19 product is not good; you can't sell us a
20 hundred percent LTV product anymore.
21 That happened with a company called
22 Entrust Mortgage.

23 MR. KREBS: Entrust?

24 MS. HAGGERTY: E-N-T-R-U-S-T, yeah.

25 And then in early 2007, there were

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 quite a few originators who were -- the
3 business relationship was terminated
4 because their capital levels fell below
5 the requirement.

6 MR. KREBS: Why would you have
7 capital levels with the loan originators?
8 To ensure that they had the ability to
9 buy them back when you went back to them?

10 MS. HAGGERTY: The capital levels
11 weren't that high; they were typically a
12 million dollars' tangible net worth. But
13 that was part of the reason, yes. I
14 think that it was a delegated
15 underwriting program. So that was a
16 typical industry standard of capital
17 levels for delegated underwriting.

18 MR. KREBS: What were some of the
19 other requirements of that program in
20 addition to the capital requirements?

21 MS. HAGGERTY: As part of the
22 approval process, when a new seller
23 presented themselves, there was an
24 application that was filled out --

25 MR. KREBS: Um-hum.

Page 82

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: -- which gave the
3 level of experience of the principals and
4 the chief officers. One of the other
5 requirements was that the originator be a
6 HUD-approved mortgagee. Typically, the
7 originators would have experience with
8 mortgage insurance, although not always,
9 because certainly, in subprime, there was
10 no mortgage insurance. The originators
11 had to have a warehouse line, they had to
12 be mortgage bankers. And I believe that
13 we typically looked for, you know, some
14 sort of track record, either in the
15 current company or with the principals in
16 prior companies.

17 In addition, references would be
18 called, which would be, typically, other
19 investors, the warehouse banks --

20 MR. KREBS: By "other investors",
21 you mean other investment banks?

22 MS. HAGGERTY: Yes.

23 MR. KREBS: People who had done
24 business with them purchasing their
25 product?

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 83

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: Correct.

3 MR. KREBS: All right. I'm sorry, I
4 didn't mean to interrupt you.

5 MS. HAGGERTY: That's okay.

6 MR. KREBS: Well, I did mean to
7 interrupt you. But --

8 MS. HAGGERTY: And mortgage
9 insurance companies.

10 MR. KREBS: Okay.

11 MS. HAGGERTY: Quality control
12 policies would be submitted and reviewed,
13 the underwriting guidelines would be
14 submitted and reviewed, and, typically,
15 that approval group would hold a
16 conference call with the operational
17 people to just discuss how loans are
18 originated, closed and funded, and then
19 just talk about logistical items with
20 respect to delivery of the files and then
21 the transfer of servicing from the
22 originator to EMC in connection with the
23 purchase.

24 MR. KREBS: When -- when Clayton
25 departed Bear Res, we think sometime in,

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

Page 84

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 maybe, 2005, probably before the first
3 quarter of 2006, how many personnel did
4 you have devoted to underwriting in that
5 operation? Do you know?

6 MS. HAGGERTY: At Bear Res --

7 MR. KREBS: Yeah.

8 MS. HAGGERTY: I don't recall.

9 MR. KREBS: Yeah. What about at
10 your flow lines? How many folks did you
11 have there dedicated to underwriting and
12 due diligence?

13 MS. HAGGERTY: I don't remember
14 exactly, but order of magnitude for that
15 whole operation, which would include flow
16 underwriters, maybe like eight people on
17 the commitment desk and then people that
18 would do funding reviews. Order of
19 magnitude, around 120 people.

20 MR. KREBS: How many of the --

21 MS. HAGGERTY: And, again -- I'm
22 sorry, that's for all the products --

23 MR. KREBS: For all --

24 MS. HAGGERTY: -- not just subprime.

25 MR. KREBS: I understand.

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: For all the products.

3 MR. KREBS: Tell us the types of
4 products, other than subprime, that you
5 engaged in the purchase of mortgages.

6 MS. HAGGERTY: In the flow conduit,
7 there was very little subprime that came
8 through the flow conduit. So it was
9 chiefly the Alt-A product. Adjustable
10 rate and fixed rate Alt-A products.

11 MR. KREBS: I'm going to ask you a
12 question that has been dogging me since I
13 started this project. What's the
14 difference -- how do you know the
15 difference between -- when does Alt-A
16 become subprime?

17 MS. HAGGERTY: I think that in your
18 travels, you'll probably get a lot of
19 different nuances. And --

20 MR. KREBS: Oh, believe me, I have.

21 MS. HAGGERTY: -- answers. So I'll
22 tell you what it meant to me and what it
23 meant to us at Bear.

24 A couple of things. Some of the big
25 picture ones were, first of all, subprime

Page 86

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 would be loan-to-value ratios over eighty
3 percent with no mortgage insurance.

4 That's a very large differentiator. If
5 it was an Alt-A loan and the loan-to-
6 value ratio was over eighty percent, you
7 required mortgage insurance in most
8 cases.

9 The second thing that differentiated
10 subprime was the originator. And by
11 that, I mean that when the originator
12 went to the marketplace to originate the
13 loans, they marketed a subprime program.
14 So if the originator was a retail
15 originator that employed loan officers to
16 talk to homeowners or they were a
17 wholesaler that employed account
18 executives to go call on brokers, they
19 were marketing a subprime product.

20 Another major differentiator between
21 subprime and Alt-A was just how the rate
22 sheet is constructed. Alt-A rate sheet
23 starts with a base interest rate with a
24 price associated with it. And then you
25 have a lot of different attributes that

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 impact that base rate, like is it a
3 second home or an investment property or
4 a primary residence. Each of those, at
5 the primary being the base rate, but if
6 it's a second or investor, you might
7 change the price, which, in turn, affects
8 the interest rate. So Alt-A was
9 categorized -- characterized by a lot of
10 these -- risk-based pricing is what we
11 called all these different attributes.

12 Typically, and this did change over
13 time, but the combined loan-to-value
14 ratio -- you didn't see first and seconds
15 in subprime as prevalently as you saw in
16 Alt-A; it was unusual to see a first and
17 second piggyback in subprime. Subprime
18 was very much that, on the adjustable
19 rate side, that 2/28 and 3/27 product,
20 you didn't see that in Alt-A. For Alt-A
21 the -- the ARMs would be a 3.6 LIBOR, a
22 5.6 LIBOR, 7 and 10.

23 Typically, the loan amounts, just on
24 average, tended to be smaller with
25 subprime. But, again, the big

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 differentiator for me would be the
3 originator was offering a subprime
4 product.

5 MR. KREBS: And what he called it,
6 you called it?

7 MS. HAGGERTY: Well, it had these
8 other attributes.

9 MR. KREBS: Sure.

10 MS. HAGGERTY: And -- and, you know,
11 it was very much a way of -- of how the
12 loans were -- were priced and marketed.
13 Again, you know, this notion of the --
14 all the price adjustments on Alt-A, which
15 it didn't have that same kind of
16 granularity in subprime.

17 MR. KREBS: So you acquire a company
18 in February of 2007. How long had it
19 been operating prior to the acquisition?

20 MS. HAGGERTY: I'm not a hundred
21 percent sure, but I believe it was
22 several years. I want to say '04-ish.
23 Could have been before that, could have
24 been after that.

25 MR. KREBS: So you've got a pipeline

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 of mortgages ready for -- to be
3 securitized and then, all of a sudden,
4 the market disappears. What happens to
5 those mortgages that could not be
6 securitized?

7 MS. HAGGERTY: Mortgages that can't
8 be securitized remain with the owner of
9 them.

10 MR. KREBS: Do you have a notion as
11 to how many of those were on Bear
12 Stearns' books, say, September of '07?

13 MS. HAGGERTY: I don't, as I sit
14 here today.

15 MR. KREBS: Was there a point in
16 time where you saw the market turn, where
17 you knew there was no longer a market in
18 the securitization for RMBS, mortgage-
19 backed securities?

20 MS. HAGGERTY: I think that the --
21 the team at Bear Stearns, yes, saw that.
22 I mean the team at Bear Stearns was
23 talking to the investor base daily and --
24 and certainly saw that.

25 MR. KREBS: When was that?

Page 90

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MS. HAGGERTY: Some time throughout
3 2007. I -- I can't tell you with --

4 MR. KREBS: Before --

5 MS. HAGGERTY: -- specificity.

6 MR. KREBS: -- BSAM crashed on 7/31
7 of '07?

8 MS. HAGGERTY: There was a lot of
9 activity in the market -- or -- I don't
10 know if volatility's the right word, but
11 there was a lot happening in March,
12 April, May in general in the Alt-A
13 markets. So as I sit here today, exactly
14 what happened -- what happened when, I
15 can't tell you.

16 MR. KREBS: Do you have a -- a
17 knowledge of how much or how often Bear
18 Stearns was going to the market with RMBS
19 or mortgage-backed securities during that
20 time frame? Had it resulted in a trickle
21 of offerings or was it a number of them
22 attempted to get ready to -- to move?
23 What -- what happened during that period
24 of time when it was all this volatility
25 in the market with respect to the

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 securitizations?

3 MS. HAGGERTY: I don't want to
4 answer because I don't remember exactly.
5 I'm sorry.

6 MR. KREBS: Is it fair to say that
7 there came a point in time in 2007 when
8 you realized this deal is over?

9 MS. HAGGERTY: Well, it was
10 certainly the volume started to come down
11 and there was less demand. Yes, that
12 occurred during that springtime into the
13 summer, yes.

14 MR. KREBS: With respect to that
15 springtime and summer, what did you do --
16 you and -- and -- with the loans that had
17 been -- or then being originated at Bear
18 Res and your new acquired company and
19 your flow channels, what were you doing
20 with those?

21 MS. HAGGERTY: One thing that we
22 were doing during that time period is
23 reducing the number that we bought. And
24 during that time period, we were also
25 reducing the types of loans that we

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 bought. Meaning, I believe, sometime
3 during those time periods, we stopped
4 buying the no income verification loans
5 and the no ratio loans. At some point
6 during that time period, we stopped
7 buying the negative amortization loans.
8 Again, I can't tell you exactly what
9 products when, but there was a lot of
10 activity with respect to reducing the --
11 the variety of the offering.

12 MR. KREBS: You just used a term
13 that I -- I'm not familiar with. Maybe
14 my colleagues are. No ratio loans, what
15 does that mean?

16 MS. HAGGERTY: No ratio is a -- a
17 documentation type description, like full
18 doc or stated income or -- or no
19 documentation. And they -- you would
20 typically, in a no ratio, verified asset,
21 verify liquid assets, but you would not
22 only not verify income, you would not
23 require the borrower to state the income.
24 And because they're not stating the
25 income, you can't calculate a debt-to-

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 income ratio. So hence the name.

3 MR. KREBS: When did those loans
4 come into being?

5 MS. HAGGERTY: I -- I don't remember
6 exactly when. Somewhere --

7 MR. KREBS: Presumably sometime
8 before.

9 MS. HAGGERTY: -- in that period --
10 that time period, the '03 to '07 time
11 period. Somewhere along that line.

12 MR. KREBS: Was it -- did there come
13 a point in time at Bear Stearns where,
14 following the volatility in the market,
15 following the fact that we want to cut
16 back on our purchases, that we began to
17 intensify our efforts to put loans back
18 to originators?

19 MS. HAGGERTY: There was a group at
20 EMC whose job it was to put loans back to
21 originators. Loans went back to
22 originators for two reasons.

23 The first reason was in the mortgage
24 loan purchase agreement between EMC and
25 the sellers, it was -- typically, the

Page 94

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 sellers made a covenant that if one of
3 the first, second or third payments due
4 to EMC after the loan was sold to EMC
5 became delinquent, EMC had the right to
6 put that loan back to the originator.
7 Sometimes they did and sometimes they
8 didn't.

9 A reason that they wouldn't would
10 typically be if the delinquency was
11 caused by some sort of servicing transfer
12 confusion on the part of the borrower
13 that then righted itself. So the
14 borrower sent the payment to the old
15 mortgage company, they should have sent
16 it to EMC, the old mortgage company
17 forwards it to EMC, gets there late, it
18 shows as a delinquency; those types of
19 things, EMC would typically not put back
20 to the originator.

21 MR. KREBS: Um-hum.

22 MS. HAGGERTY: But if it was, you
23 know, a true default, EMC would seek to
24 do that.

25 The second reason that EMC would put

VERITEXT REPORTING COMPANY

212-267-6868

www.veritext.com

516-608-2400

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 a loan back to an originator is if they
3 had done a quality control review and
4 found a breach of a rep and warranty that
5 materially and adversely impacted the
6 loan. And that would be a basis for
7 putting the loan back.

8 MR. KREBS: What were the common
9 breaches of reps and warranties that were
10 experienced during this period of time?

11 MS. HAGGERTY: Let's see.

12 I think what -- what one would
13 typically see would be things like the
14 appraised value of the property was
15 misstated. It could be that the borrower
16 represented that they were going to be
17 the primary residence and it was, in
18 fact, an investor property, it was
19 discovered.

20 Another thing that occurred over
21 time was that the borrowers would not
22 disclose all their debts. So what we
23 would see, from time to time, was a
24 borrower might buy five properties on the
25 same day --

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: Yeah.

3 MS. HAGGERTY: -- get them financed
4 by five different lenders and not tell
5 each other that they had all this
6 indebtedness.

7 So those would be the type of things
8 that you could discover later.

9 MR. KREBS: Presumably, you're not
10 buying all five of those loans.

11 MS. HAGGERTY: Correct. You're not.

12 MR. KREBS: You're -- you're buying
13 just the one and then you discover the
14 existence of the other four?

15 MS. HAGGERTY: Yeah.

16 MR. KREBS: Who was doing the due
17 diligence in connection with these put-
18 backs at that time?

19 MS. HAGGERTY: The quality control
20 group at EMC. And, as I said earlier,
21 some of those reviews were done by
22 employees of EMC and some of the reviews
23 were outsourced to Advitech. And there
24 may have been other outsource companies,
25 but Advitech was the major one.

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 MR. KREBS: When it came to offering
3 RMBS mortgage-backed securities, would
4 all of these methods that you have
5 described of acquiring loans, would they
6 funnel those loans into the package of
7 loans that were to be securitized?

8 MS. HAGGERTY: Typically, yes.

9 MR. KREBS: So we could -- you
10 couldn't count on just one methodology
11 unless that was -- well, how -- how --
12 how could you -- how can you distinguish,
13 based on any records that we have -- have
14 shown you, whether or not Bear was just a
15 underwriter, a pure underwriter, and not
16 a seller as well as an underwriter? I
17 don't suppose that there is a method that
18 we could go back in and determine which
19 one of the underwritings done -- I mean
20 the due diligence done by Clayton and
21 other due diligence firms was done in
22 connection with the underwriting for
23 another seller.

24 MS. HAGGERTY: Well, presumable,
25 Clayton should have that data, because

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 when they were engaged, they should
3 presumably know that. You know, whether
4 or not they kept it at that level or not,
5 I don't know.

6 You know, the other thing that we
7 don't know from the Clayton reports is
8 the product mix. I mean some of these
9 could be jumbo-A products that we bought
10 from Wells Fargo or Countrywide. And --
11 and we did quite a bit of that in the
12 adjustable rate markets.

13 MR. KREBS: It may very well be that
14 we have the ability to go back and find
15 that. I will get in touch with you in
16 the event that I do.

17 How are these mortgages packaged and
18 securitized? How are they sold to
19 investors?

20 MS. HAGGERTY: Bear Stearns and EMC
21 had a number of different shelf names
22 that they use to create the securities.
23 And it was -- the shelves were pretty
24 much arranged by general product type.
25 So there might be one shelf that was used

1 FCIC INTERVIEW OF MARY HAGGERTY - 08/17/2010

2 to securitize subprime. There would be a
3 shelf or a number of shelf designations
4 used to securitize an offer: adjustable
5 rate jumbo, fixed rate jumbo, adjustable
6 rate Alt-A, fixed rate Alt-A, second
7 liens, home equity lines of credit,
8 scratch and dent product. So there were
9 a number of different shelf designations
10 that were really a way of kind of
11 segregating the different product types
12 to be pooled and securitized.

13 MR. KREBS: Were any of them -- is
14 it your understanding they were also
15 unregistered offerings, as opposed to
16 144A offerings?

17 MS. HAGGERTY: There may have been
18 144A from time to time, but I believe,
19 primarily, they were SEC shelf
20 registrations.

21 MR. KREBS: Now, you -- did you have
22 anything to do with meeting with and
23 consulting with the rating agencies in
24 connection with these offerings?

25 MS. HAGGERTY: Earlier in my career,